Health Care, American Style: How Did We Arrive? Where Will We Go?

Dora Wang, MD, MA

The Patient Protection and Affordable Care Act (PPACA), or “Obamacare,” is analyzed in the context of a brief history of the American health care system. American medicine was a humanistic, charitable endeavor for most of the past century. Its transformation into a profit-driven industry is reviewed. In the early 1900s, physicians led a reform movement to protect patients from the false claims of proprietary tonics. The Food and Drug Administration was founded in 1906, profiteering became disdained, and physician’s ethics dominated American medicine for almost a century. In the 1980s, the federal government encouraged for-profit corporations to take leadership of American medicine. By 2010, the PPACA was passed to protect patients from “fraud, waste and abuse” mostly of health insurance corporations. Similarities and differences between the two reform movements, a century apart, are reviewed. Physicians led last century’s movement, but have been relatively absent from crafting today’s reform.

Many of us recall when the American medical system centered on humanistic values, and financial concerns seemed beneath the noble purpose of the medical profession. Hospitals were named for saints and were run by charities and nonprofit community organizations. Courts across the country ruled that corporate profit in medical care was simply “against sound public policy.” This period of history, from the early 1900s until the 1980s, represented a golden age for American medicine, and perhaps not coincidentally, for America itself.

Fast-forward to today. Health care is one of Wall Street’s most profitable industries. Insurance corporations hold the purse strings on medical decisions. Across the country, hospitals that have focused on medical care, not business, have closed. Even institutions with more than 150 years of charitable service, including St. Vincent in Manhattan and the Medical College of Pennsylvania Hospital, have found it impossible to stay open.

Perhaps not coincidentally, the nation is undergoing one of its worst financial states since the Great Depression. With health care consuming approximately 20% of the nation’s dollars, health care reform is an economic priority.

A brief history of the American health care system follows. How did it become a humanistic endeavor that disdained corporate profit for most of the 20th century? How did it then transform into the profit-driven industry it is today? Today’s health care reform—the Patient Protection and Affordable Care Act (PPACA), also called Obamacare—will be analyzed and critiqued in this historical context.

The health care reform movement of the early 1900s will be reviewed. The term “snake oil” remains in our language as a cultural memory of this effort waged against proprietary medicines, also called patent medicines, or tonics. As a result of this movement, drugs became regulated. The U.S. Food and Drug Administration (FDA) was founded, physicians took authority over prescribing medicines, and direct advertising of drugs to patients ceased.

Physicians and the ethics of physicians dominated American medicine for nearly a century.

Most importantly, physicians and the ethics of physicians dominated American medicine for nearly a century. Corporate profit was disliked, and Wall Street was kept out of medical care, until the 1980s. Remarkably, the reform movement in the early 1900s occurred when medical care had little to offer beyond its professional codes and ethics. The significance of this will be analyzed.

Kenneth Arrow’s landmark 1963 article, which began the fields of health care economics and the economics of information, will be reviewed. Arrow argued that profit and medical care are incompatible, and that free market economics do not apply to medical care.

Despite Arrow’s work being recognized with the 1970 Nobel Prize in Economics, American medicine was put into the free market in the 1980s. Wall Street and for-profit corporations—kept out of American medicine for nearly a century—were encouraged to take leadership of health care. The intent was to unleash private sector efficiencies toward decreasing health care costs. Yet, the result has been the opposite. Health care costs rose from 8.1% of the gross domestic product (GDP) in the early 1980s to nearly 20% of the GDP currently. Health care reform at the turn of both centuries has been spurred by economic priorities as much as moral imperatives.

The PPACA will be analyzed in the context of health care reform during the early 1900s. Many parallels exist between last century’s health care reform effort waged against “snake oil,” and today’s efforts that target “fraud, waste, and abuse,” primarily of health insurance corporations.

Yet notable differences exist, especially in the role of physicians and the priority given to the codes and ethics of the medical profession. The implications of this will be discussed.

IN THE BEGINNING

The nation’s first medical hospital was founded in 1751 by Benjamin Franklin and Thomas Bond. Pennsylvania Hospital was established to care for the “sick-poor and insane” who wandered the streets of Philadelphia. Prior to this, hospitals did not necessarily provide medical care, but were almshouses for the orphaned and destitute. (Merriam-Webster’s online dictionary continues to list the definition of hospital as a “charitable institution for the needy, aged, infirm, or young.” The word hospital has its roots in a 13th-century old French term meaning “shelter for the needy.”)

Medicine was not always a coveted profession. In 1832, when J. Marion Sims decided to be a surgeon, his father exclaimed, “If I had known this, I certainly should not have sent you to college…it is a profession for which I have the utmost contempt. There is no science in it. There is no honor to be achieved in it; no reputation to be made.” Dr. Sims, often called the “Father of American Gynecology,” pioneered surgery for vesico-vaginal fistula and engendered controversy for using slave women as experimental subjects.

Medical care in the early 1900s was of questionable usefulness, to say the
least. The use of leeches was commonplace. Barber-surgeons still performed the ancient practice of *trepanning*, drilling holes in the skull to release bad humors. Medical care had so little to offer, that circa 1918, a flu epidemic claimed the lives of more than 2% of the world population.

**“SNAKE OIL”**

Even though medical care had little to offer, a massive health care reform movement occurred in the early 1900s. The movement was waged against fraudulent patent medicines (some actually advertised as containing snake oil) and quack medicine men who were fixtures of the American landscape and the wild west, memorialized in literature and film. The term “quack” alludes to the sales pitches of “doctors” who traveled from town to town selling “remedies,” promising quick cures, leaving empty pockets and angry citizens before being chased from town. They often hawked patent medicines with secret ingredients. Because few of these tonics were actually patented, they were actually proprietary medicines. They usually consisted mostly of water and alcohol. Some contained opiates, cocaine, acetanilids, or other harmful substances. The sick invested their hopes, money, and precious time in these fraudulent offers of cures.

Paul Starr’s classic history of the American medical system, *The Social Transformation of American Medicine*, winner of the 1984 Pulitzer Prize, gives an account of this reform movement and the “medicines” sold. Lydia Pinkham’s Vegetable Compound, for example, was introduced in 1876 for “Female Weaknesses,” “All Weaknesses of the generative organs of either Sex,” and “all diseases of the Kidneys.” The manufacturing company invited readers to “Write Mrs. Pinkham,” who gave medical advice long after her death in 1883. A woman with a prolapsed uterus wrote in a letter, “Dr. tells me I can have the trouble removed but thought I would write and ask you if the Compound would do it before I submitted to an operation with Doctor’s tools, a thing I have not much faith in.” The Pinkham Company replied, “By all means avoid instrumental treatment for your trouble.

---

*Founded in 1847, the American Medical Association (AMA) was always at odds with proprietary medicine salesmen.*

Use the Compound as you have been using it—faithfully and patiently—and it will eventually work a cure.”

Ironically, the remarkable scientific advances at the turn of the century only increased the vulnerability of the public. The germ theory of disease, put forth in the 1880s by Louis Koch and William Pasteur, would not significantly impact medical care until the 1950s, when antiseptic surgery techniques and antibiotic medicines became widely used. Yet the germ theory opened immediate opportunities for profiteers. In the late 1880s, Texan William Radam claimed his “Microbe Killer” could cure all diseases by destroying germs inside the body. He downplayed the methods of doctors: “Diagnosing disease is simply blindfolding the public.” By 1890, Radam had 17 factories manufacturing his concoction, which consisted mostly of water, red wine, hydrochloric acid, and sulphuric acid. Advertisements for drugs filled newspapers, periodicals, and even medical journals—as is the case today.

**THE AMA VS. THE PROPRIETARY MEDICINE INDUSTRY**

Founded in 1847, the American Medical Association (AMA) was always at odds with proprietary medicine salesmen. In 1900, the AMA challenged the proprietary medicine industry and quack doctors with increased resources, made possible by their growing membership. The AMA demanded that the proprietary remedies respond to the ethics of medicine by disclosing ingredients. The AMA also announced that it would cease publishing advertisements of proprietary medicines in the *Journal of the American Medical Association*.

Significantly, the AMA also insisted that drug companies cease advertising to the public. The AMA gave drug companies a choice—advertise to the public, or to physicians—but not to both. Taking further action, the AMA established a Council on Pharmacy and Chemistry in 1905, which evaluated drugs and published results in a new publication, *New and Nonofficial Remedies*, which refused to endorse any drug advertised to the public. The AMA pressured journals and newspapers to drop advertisements of patent medicines not approved by their Council. Their efforts were so successful that by 1919, a U.S. Public Health Service study of 20,000 periodicals found that more than 19,000 refused to carry advertisements for “doctors.”

Journalists also played a prominent role. Samuel Hopkins Adams published a series of investigations of the drug industry in *Collier’s Weekly*, beginning in October 1905. He attacked 264 individuals and companies by name, and presented burial notices of people whose diseases should have been cured according to the drug advertisements, along with laboratory results demonstrating the worthlessness of the drugs. He listed people who died shortly after taking headache powders containing acetanilid. Adams confronted quack physicians: “Any physician who advertises a positive cure for any disease, who issues nostrum testimonials, who sells...
his services to a secret remedy, or who diagnoses and treats by mail patients he has never seen, is a quack.” The AMA distributed more than 150,000 copies of Hopkins’ investigation, published as “The Great American Fraud.”

Then in 1906, a novel about immigrant living conditions finally mobilized government action. Journalist Upton Sinclair spent 7 weeks in Chicago meat-packing factories, then wrote about the immigrant workers’ bleak and exploited lives; their tenement housing conditions; and the unregulated, unsanitary meat they packed. Sinclair’s investigation was published in the socialist newspaper, Appeal to Reason, in 1904-1905, and then in 1906 as a book, The Jungle.

President Theodore Roosevelt was reportedly not a fan of Upton Sinclair and his muckraking journalism. However, Roosevelt was moved by The Jungle, and ordered his own investigation of the factories. As a result, Congress enacted the Pure Food and Drug Act, and founded the FDA in 1906. One of the most influential books in American history, The Jungle brought about reform in the food production and drug industries, as well as tenement housing reform.

By 1915, the Lydia Pinkham nostrum no longer purported to cure female disorders but was advertised more truthfully, as a vegetable tonic. Proprietary medicines, nor their advertisements, were ever illegalized. In fact, Lydia Pinkham’s concoction remains available in drug stores and online, today. But due to pressures initiated by the AMA, fraudulent claims of medical efficacy ceased.

To this day, the FDA approves all medications before they are available to the public. Physicians retain authority over medications, which can only be obtained with a physician’s prescription. Although these protections may seem fundamental, they do not exist in most countries, and in the United States are the direct result of health care reform of the early 1900s.

THE AMA AND PHYSICIANS’ VALUES

Physicians also exerted steadfast pressure to assure their control of the medical system. For example, in 1908, the Chicago Medical Society excluded the Sears and Roebuck Company physician because he provided services to Sears at reduced rates. They insisted that selling one’s labor wholesale is beneath the dignity of the profession. The physician resigned from Sears.

The 1934 proceedings of the AMA read that for a physician to allow a direct profit to be made from his work “is beneath the dignity of professional practice, is unfair competition with the profession at large, is harmful alike to the profession of medicine and the welfare of the people, and is against sound public policy.” In 1936, the Council of the Oregon State Medical Society ruled that it was unprofessional for a doctor to be employed by a hospital association that made “a direct profit from the fees.”

Between 1905-1917, courts in several states ruled that corporations could not engage in the commercial practice of medicine, on the grounds that corporations could not be licensed to practice medicine and that commercialism in medicine violated “sound public policy.” Physicians put their ethics at the center of American medicine. Profit, as a motive, became disdained in medical care. The term “ambulance chaser,” which derides individuals seeking profit from the illness or injury of others, is a cultural memory of this value system.

The doctor-patient relationship not only served patients, but gave doctors economic advantages. To reach patients, drug manufacturers, hospitals, or manufacturers of bandages or supplies first needed to woo doctors, whose primary function has always been to do no harm, and to protect patients.

MODERN CURES AND MEDICARE

Although germ theory was proposed in 1880s, it did not impact medical care for decades. Penicillin was discovered in 1928 by Arthur Fleming, but not until the 1940s was it purified and produced in enough quantities to be of significance. In 1943, streptomycin was discovered, thus bringing a cure for tuberculosis. Vaccines against polio, smallpox, and other epidemic diseases began offering hope for eradication of many devastating infectious diseases. By the 1950s, medical care finally entered the modern era, offering science-based treatments of unquestionable benefit, in the eyes of the general public. Rather than leave so many without access to medical care, Medicare was created in 1964 for humanitarian and social equity purposes. It was the nation’s first widespread medical insurance.

MEDICAL CARE DEFIES THE FREE MARKET

In 1963, economist Kenneth Arrow published a seminal article that created two new fields of study—health care economics, and the economics of information—work which led to his 1970 Nobel Prize in Economics. “Uncertainty and the Welfare Economics of Medical Care,” began by questioning why doctors and hospitals routinely provided medical care free of charge, and how “zero-pricing” could occur for what is arguably society’s most valuable product.

Arrow argued that if left to the free market, the public would in time demand more government regulation of medical care, and more protections. Medical care differs fundamentally from other products, according to Arrow: “The customer cannot test the product before consuming it,” he wrote. Comparison shopping is further made obsolete by other factors, such as the emergency nature of some medical care.
Arrow’s most seminal argument, however, was that “the information possessed by the physician as to the consequences and possibilities of treatment is necessarily very much greater than that of the patient.” Arrow stated that for a patient to know as much as a doctor, the patient would need to go through medical training and be a doctor. Therefore, patients de facto delegate medical decisions to their doctors, who tailor their knowledge in service of patients. Other reasons patients cannot make medical decisions include the loss of rationality, and vulnerability to fear and to hope, when faced with illness or mortality, and that at times, illness frankly disables thinking capacities, as when patients suffer a stroke, brain trauma, coma, or mental illness.

Because medical care is a unique product that defies the market, Arrow argued that patient protections have evolved over time—some ancient, some modern. Doctors need the highest ethical standards, far above that of salesmen and barbers, Arrow wrote, because of the life-and-death stakes, the inherent knowledge inequality between doctors and patients, and because of the vulnerability of patients. Codes of ethics such as the Hippocratic Oath, licensure, educational requirements, and professional standards protect patients and help assure trust. According to Arrow, “the very word, ‘profit,’ is a signal that denies the trust relations.”

NIXON AND UNIVERSAL HEALTH CARE

By the 1970s, President Richard Nixon sought a solution for the nation’s rising medical costs. Whereas medical care comprised 5.2% of the GDP in 1960, by 1970, health care consumed 7.2% of the GDP.

Nixon believed that the solution was nonprofit health maintenance organizations such as Kaiser Permanente. The Kaiser system, founded in 1933 in the Mojave Desert by Dr. Sidney Garfield, charged workers building the California Aqueduct 5 cents per day, or $18.25 a year, per person. Receiving payments in advance allowed Dr. Garfield to focus on prevention. Later, industrialist Henry Kaiser recruited Garfield to provide medical care for his company in the shipyards of Northern California. The Kaiser health care system was the nation’s first pre-paid medical plan.

Nixon enacted the HMO Act of 1973, which, over the next years, gave $360 million to foster the growth of nonprofit HMOs. Nixon also proposed a bill for universal health insurance. The bill, however, failed before Congress, amidst scandal. Wiretaps were found at the Watergate Hotel. Congressman Wilbur Mills, a strong proponent of the bill, was stopped by police officers, and stripper Fanne Foxe jumped out of his car into a tidal basin. The dream of health care coverage for all Americans was thus lost for the next three decades.

MEDICAL CARE IS RELEASED TO THE FREE MARKET

The deregulation of the financial and airline industries in the 1980s is widely discussed. Rarely discussed, but perhaps of greater economic impact, were deregulations of the health care industry.

In the early 1980s, the newly formed U.S. Department of Health and Human Services held seminars in New York, Washington, and Chicago, encouraging for-profit businesses to enter health care. According to Congressional Quarterly, the goal was to “unleash free market forces to attack the persistent problems of the cost and accessibility of health care.” Investment Dealers’ Digest recognized a “once-in-a-lifetime opportunity for creative investment bankers…a field that rewards creativity and bold thinking.”

An account of American health care’s deregulation and its consequences has been published by Pulitzer Prize–winning Philadelphia Inquirer journalists, Donald L. Barlett and James B. Steele, in “Critical Condition: How Health Care in America became Big Business and Bad Medicine.” According to the chapter, “Wall Street Medicine”:

the move of the moneymen into health care triggered an ongoing wave of mergers, acquisitions, consolidations, hostile takeovers, initial public offerings, spin-offs, failures, and bankruptcies. A field once known for stability of ownership has been traumatized by almost constant upheaval. This has made life miserable for doctors, nurses, and, most of all, patients and their families. But it has been wonderful for the Street, creating endless opportunities to profit.

To increase profit, methods of the fast-food industry became applied to the medical care of Americans. Forbes Magazine described the profitability of the Healthcare Corporation of America: “HCA dispenses health care as profitably as KFC did drumsticks.”

Thus, Paul Starr concluded his 1983 Pulitzer Prize–winning book with a warning that the medical care of Americans seemed headed for control by: “conglomerates whose interests will be determined by the rate of return on investments. That is the future toward which American medicine now seems to be headed.”

Once governed by the ethics of physicians, the ethics of profit came to dominate the U.S. health care system, beginning in the 1980s. An example of a well-rewarded health care company is Tenet Health Care, which by 2008 was the nation’s largest for-profit hospital chain. It was founded from the ashes of National Medical Enterprises (NME). According to Barlett and Steele: the company’s psychiatric unit set the standard for health care fraud. Its doctors and administrators over-billed patients, insurers, and Medicare. They charged for services and treatment never
provided. They signed false insurance claims and encouraged others to do so. They paid up to $40 million in kickbacks to doctors to refer Medicare, Medicaid, and privately insured patients to their psychiatric hospitals. They falsified the charts of patients to confine them in the hospitals longer than needed—sometimes against their will—in order to keep the money flowing from insurers. The company ultimately pleaded guilty to fraud charges and paid the U.S. government $379 million in criminal fines, civil damages, and penalties—the largest sum ever assessed until then.

After several NME key players were sentenced to federal penitentiary, the organization sponsored a naming contest and then renamed itself “Tenet,” a word which conveys principles. Tenet proceeded to acquire, merge, and down-size hospitals across the nation. Among their acquisitions was the Medical College of Pennsylvania (MCP) Hospital, founded in 1850. Its graduates included Eliza Greer in the early 1900s, who had been born a slave. In 1998, Tenet bought the MCP Hospital for 20 cents on the dollar and cut a thousand jobs. Dennis Novack, MD, one of legendary physician George Engel’s approximately 100 fellows, and thus one of medicine’s primary educators of the bio-psychosocial model of disease, worked in this hospital at the time. Novack recalls:

The corridors are dark and empty. Some days the cooling goes out, so we have to close the clinic. It’s too hot for patients. Even the roaches have died. Other times, patients can’t schedule appointments or reach the few remaining doctors, since so many of the staff have been cut. One day I was in the basement and a pipe burst. I was knee deep in water. The place is in such disrepair, nothing like what it used to be.9

In 2003, Tenet announced it would close the 153-year-old hospital, along with 27 other hospitals it owned across the country. The MCP Hospital had served all patients in need, regardless of economic or insurance status. It provided medical care through the Civil War, two world wars, the Great Depression, and the turn of two centuries. Yet, this venerable institution found it impossible to stay open, in America today. As for Tenet, by 2008, it was the nation’s second largest for-profit hospital chain.

The physician’s codes of ethics are time-tested methods that have protected patients for millennia.

HEALTH CARE REFORM THEN AND NOW

Many similarities exist between the health care reform effort of the early 1900s waged against proprietary medicines, and today’s PPACA, or Obamacare. Both reform efforts focused on the growing imperative to protect patients for both moral and economic reasons. Whereas last century’s effort was aimed at protecting patients who invested hopes and money in fraudulent proprietary medicines, today’s effort aims to protect patients who have invested in health insurance, only to find themselves “denied” of care when sick.

Yet, key differences exist between last century’s health care reform and the current PPACA. Last century’s long-lasting and successful health care reform was spurred by physicians and the AMA. In contrast, today’s health reform began from several nexuses, including muckraking filmmaker Michael Moore, corporations such as Wal-Mart that complained about health insurance costs impeding business, and notably Barack Obama, an unprotected patient’s son who became President of the United States.

Significantly, physicians have not had a major role in crafting today’s health care reform. In fact, the AMA was so fractured that they initially refused to endorse President Obama’s PPACA, which in time, they did.

What are the implications of this? Last century’s movement, led by physicians, demanded that the “ethics of medicine” govern the medical care of patients. Indeed, it can be argued that for most of the past two millennia, the main offering of physicians have been the profession’s codes and ethics. Professional codes have defined the medical profession since ancient times. Some of these codes, contained in the Hippocratic Oath, include to do no harm, to practice solely for the benefit of patients, and to conduct the doctor-patient relationship without mischief and with confidentiality.

History tells us that reform has less to do with the usefulness of medical treatments, but the age-old vulnerability of human beings when ill, or when confronted with mortality. The physician’s codes of ethics are time-tested methods that have protected patients for millennia. Is it possible that the physician’s codes and ethics serve economic functions, not only medical and humanitarian functions?

Medical care today is even more complex, more impossible for patients to comprehend, than when Kenneth Arrow wrote in 1963 about the inherent knowledge inequality between doctors and patients. Indeed, many of us would be willing to spend all we have, to prolong life and the quality of life for ourselves, our children, and our loved ones. If our health care system is driven to increase profit every quarter and to maximize earnings, isn’t this a set-up for ever-rising costs? Is it little wonder that health care costs have threatened to sink the U.S. economy in recent years?

Does the doctor-patient relationship also serve important economic functions? Indeed, if not for physicians tai-
loring treatments for each patient, all modern medicine offers is random, expensive technology. A medical system focused on the doctor-patient relationship, with the doctor guiding a patient through illness, may be both humanistically and economically prudent. When 80% of health care costs occur in the final month of life, what is a doctor’s handholding skill worth economically?

**WILL THE PPACA SUCCEED?**

Last century’s health care reform resulted in a medical system dominated by physicians and centered on physicians’ codes and ethics. Profit, as a motive, was disdained. Wall Street and corporations were largely kept out of medical care by physicians, patients, and government. On the other hand, the current PPACA limits the profit and administrative costs of health insurance corporations to 15% to 20%. This is a significant cut from the approximately 33% of our health care dollars currently devoted to profit and administration. It should be noted that in contrast, France spends approximately 5% of its health care dollars on administrative costs, Canada spends 6%, and Taiwan spends 2%, and profit is not allowed. In fact, no nation with an advanced economy has a health care system that is predominantly for profit, and perhaps this is no accident. Although the PPACA now makes it illegal for a health insurer to deny “coverage” based on a pre-existing condition, insurers can still deny “care.”

If history is an indication, our current health care reform is far from complete. Government regulation is important, to be sure. It is possible that neither the health care system—nor the economy—will be healed until the professional codes and ethics of physicians are restored to the center of our medical system. Indeed, only the professional codes and ethics of physicians have stood the test of time, and through millennia have functioned to protect patients and their collective resources.

**REFERENCES**